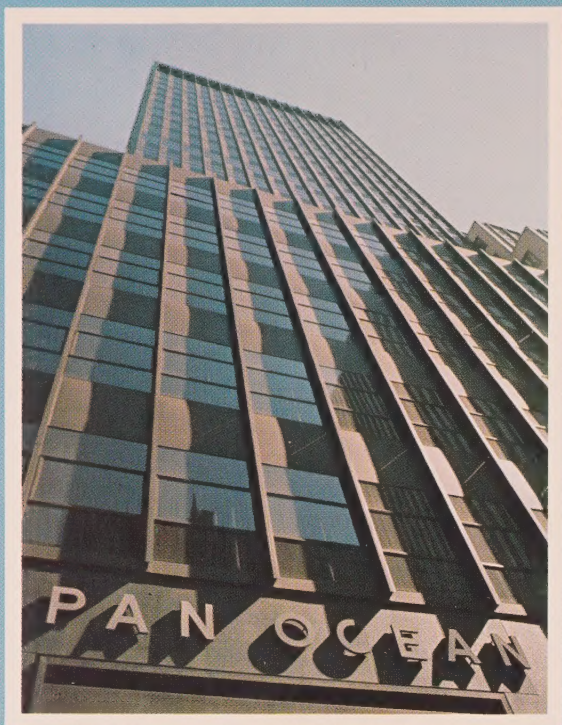


AR14



PAN OCEAN



In February of 1971 the corporate headquarters were moved into the new Pan Ocean Building at 60th Street and Madison Avenue, New York City.

Corporate Headquarters

Pan Ocean Building
645 Madison Avenue
New York, New York 10022

Board of Directors

Peter A. Banker, Vice President

Phillip J. DeZwirek
Private Investor

John M. Emery
Partner, Breed, Abbott & Morgan, New York

*Yasuhiro Goh
Director, Bridgestone Liquefied Petroleum
Gas Company, Tokyo

Adam A. W. Kryczka, Vice President

Donald B. Lamont
President, Interocean Oil Company, Inc.,
New York

Dan W. Lufkin
Chairman of the Executive Committee, Donaldson, Lufkin
& Jenrette, Inc., New York

*Louis Marx, Jr., Chairman of the Executive Committee
Neil A. McConnell
Partner, McConnell, Melhado, New York

*William W. Peabody, President

*Stanley R. Rawn, Jr., Chairman of the Board

Samuel P. Reed
Vice President and Director, Engelhard Hanovia,
Inc., New York

Victor E. Trudel, Executive Vice President

*Members of the Executive Committee

Officers

Stanley R. Rawn, Jr., Chairman of the Board and
Chief Executive Officer

William W. Peabody, President

Victor E. Trudel, Executive Vice President

Peter A. Banker, Vice President

Adam A. W. Kryczka, Vice President

F. William Popp, Vice President

Gerald P. Taber, Vice President, Secretary

Thomas P. Sullivan, Treasurer, Controller

Transfer Agent and Registrar

Bankers Trust Company
New York, New York

Legal Counsel

Breed, Abbott & Morgan
New York, New York

Independent Accountants

Price Waterhouse & Co.
New York, New York

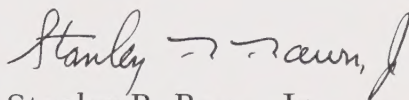
Dear Shareholder:

Our annual report for 1970 covers Pan Ocean Oil Corporation's first full year as a public company. It has been a year of profound and dramatic change for the Company. Developments during the past year have provided both the financial basis and the exploration opportunities to enable Pan Ocean to move forward during the coming year. The most important of these developments are outlined below:

- The merger in early 1971 of Pan Ocean and United Bata Resources Ltd.
- The acquisition and geophysical exploration of a number of important acreage holdings—particularly in Abu Dhabi, Nigeria, the North Sea, and Indonesia.
- The agreement recently announced between Pan Ocean and a major oil company providing for a joint venture arrangement in Abu Dhabi and Nigeria.
- The further financial strengthening of the Company through a \$10 million convertible debenture.
- A substantial growth in our technical staff and the addition of three new Directors to the Board.

We welcome our many new shareholders in both Canada and the United States. We continue to be appreciative of your support and look forward to developments during 1971.

Cordially,



Stanley R. Rawn, Jr.
*Chairman of the Board
and
Chief Executive Officer*



May 1, 1971

Exploration and Land Holdings

EASTERN HEMISPHERE

Middle East

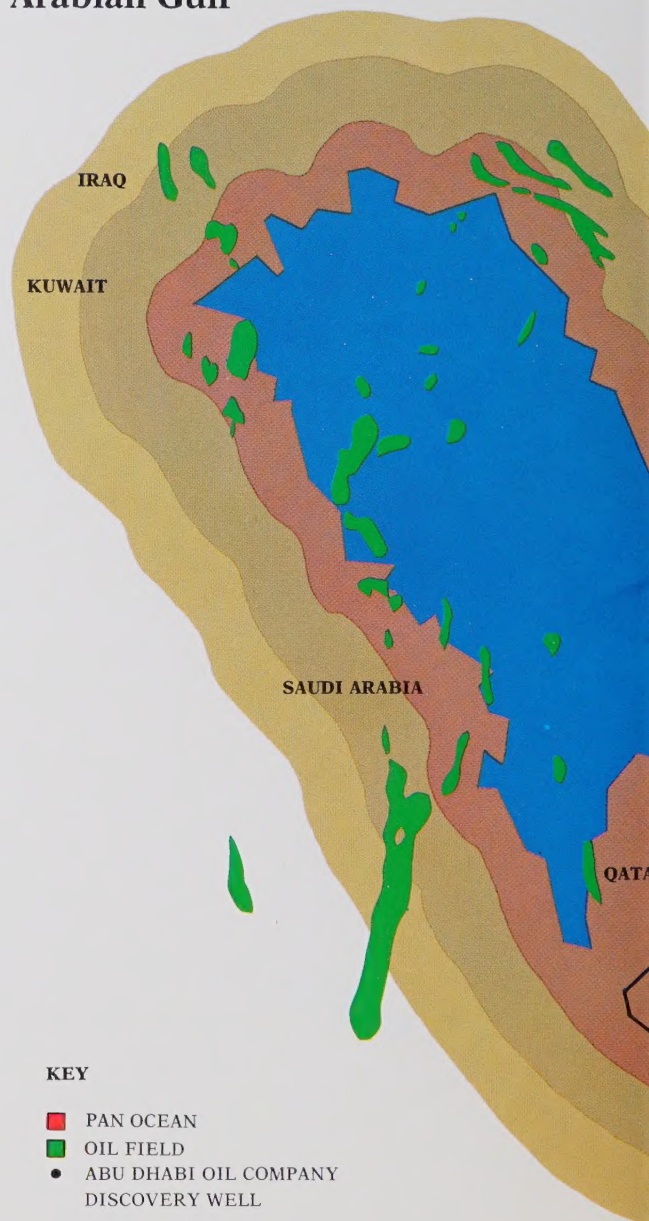
Last June Pan Ocean was awarded a highly prospective concession in the Arabian Gulf by the Ruler of *Abu Dhabi*. The concession is divided into two separate blocks comprising a total of more than three quarters of a million acres. Abu Dhabi is a small Trucial State with a combined onshore and offshore area of only 40,000 square miles. Oil production commenced as recently as 1962 and since that time oil discoveries in Abu Dhabi have propelled it to fifth place in the Middle East in terms of both oil production and oil reserves—exceeded only by Saudi Arabia, Iran, Kuwait, and Iraq.

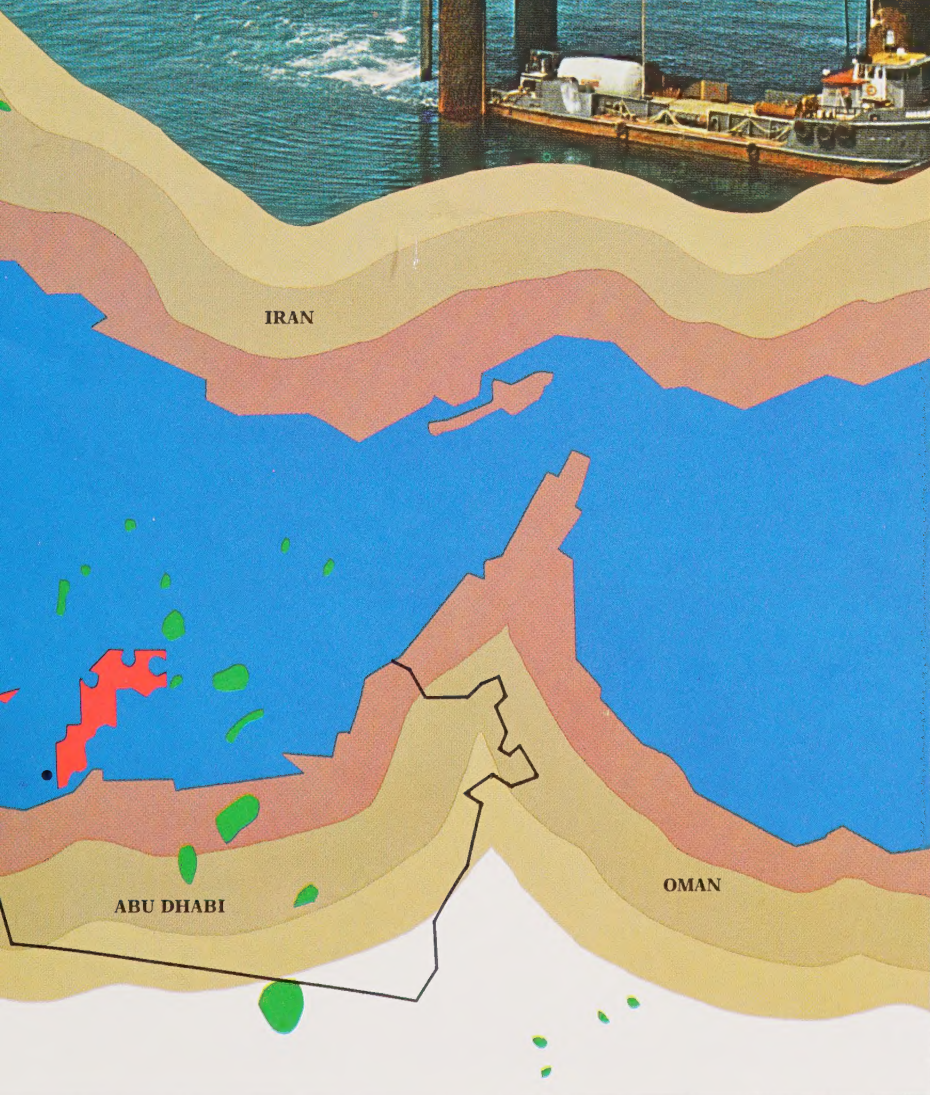
Pan Ocean, after an extensive seismic program on the concession area, has determined the location of the first exploratory well. This well, to be known as the Zaboob No. 1, will be drilled by the *Pegasus*, a jack-up drilling rig operated by The Offshore Company. Drilling is scheduled to begin in May.

An agreement has just recently been reached between Pan Ocean and Amerada Hess Corporation. Under the terms of this agreement Amerada Hess will earn one-half of Pan Ocean's 63% interest in the concession.

Abu Dhabi is a member of the Organization of Petroleum Exporting Countries and consequently Pan Ocean will be affected by the agreement recently reached in Teheran between OPEC and the international oil companies. The agreement will place additional burdens on all of the oil companies operating in Abu Dhabi, such as an increase in the tax rate from 50% to 55% and an increase in the posted price of oil. However, in return the OPEC countries have agreed that the new terms will remain unchanged for five years, thereby promising a period of stability between Abu Dhabi and the companies operating there.

Arabian Gulf





Pegasus, which will drill Pan Ocean's first test well in the Arabian Gulf offshore from Abu Dhabi.

Africa

Of the major oil producing countries of the world, *Nigeria* has realized the most dramatic increases in production during the last two years. Production is now at a rate of almost 1.5 million barrels per day, up from approximately 600 thousand barrels per day at the beginning of 1970. It is anticipated that production will exceed two million barrels per day in 1972. Production is now being taken from some 41 oil fields located in the Niger Basin.

Following a photogeological study last year, Pan Ocean commenced a seismic program in late November on Oil Prospecting License 51 which extends westward from the Niger River. Preliminary results were sufficiently encouraging to lead to an expansion of the original seismic program. This program is now intended to continue into the summer, and it is anticipated that drilling will commence before the end of 1971. Pan Ocean presently owns a 100% interest in OPL 51, has been notified that it has been granted OPL 71, and has an application pending on OPL 99.

An agreement, subject to Nigerian Government approval, has just been entered into with Amerada Hess Corporation. Under the terms of the agreement Amerada Hess will earn a 50% interest in Pan Ocean's Nigerian interests.

Two unsuccessful wells were drilled offshore *Ghana* during 1970 at no cost to the Company. Pan Ocean holds a 2% interest in approximately two million acres both on and offshore Ghana.

A seismic survey was conducted on a 2.5 million acre concession offshore *Sierra Leone*. The concession was acquired jointly with Union Carbide during 1970. Pan Ocean's interest is 50%.

In *South Africa* Soekor, the government-controlled company which has assumed work obligations in the Pan Ocean group's concession area in return for an interest in any discovery, is continuing its drilling program in the 6.9 million acre onshore concession near Port Elizabeth.



Nigeria

KEY

- PAN OCEAN
- OIL FIELD
- PIPELINE



Geophysical crew on location in Nigeria.

Europe

Phillips Petroleum Company's significant Ekofisk discovery in the Norwegian sector of the *North Sea* in April 1970 established the North Sea as a major oil producing area. Since the Ekofisk discovery, nine separate oil fields have been discovered in the North Sea. Pan Ocean has had a strong acreage position in the North Sea since 1968, and presently holds acreage in the three producing sectors—the Dutch, the Norwegian, and the United Kingdom (U. K.). The North Sea oil fields discovered to date are located in a 350 mile tertiary basin extending north to south. Pan Ocean's U. K. Blocks 16/3 and 16/7 and Norwegian Block 25/4, which is expected to be awarded shortly, are all located in the central part of this basin. The Company's Norwegian Blocks 11/10 and 11/7 are located on the eastern flank of the basin. The Dutch blocks, which are not in the basin, are prospective for gas rather than oil. Results of seismic surveys conducted by the Company have been encouraging.

In the *Italian Adriatic* Pan Ocean has a 75% interest in five blocks and interests pending in two additional blocks. A recently completed seismic program on the awarded blocks is being interpreted. In Sicily, Pan Ocean's subsidiary Oceanica Petroli Italiana has applications pending on 380,000 acres, both onshore and offshore.

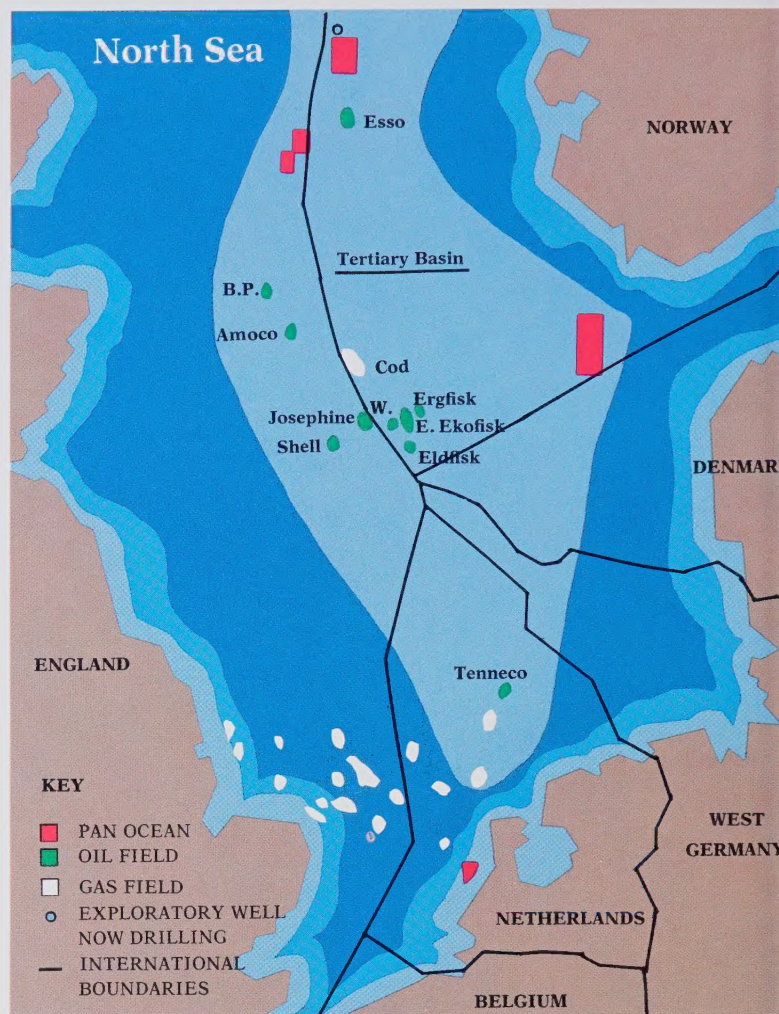
A test well, drilled on company acreage in *Turkey* last year at no cost to Pan Ocean, encountered only non-commercial quantities of oil. Pan Ocean holds a 30% interest in about a half million acres in Turkey and has applications pending on an additional two million gross acres.

Asia

In April 1971 Pan Ocean announced it had acquired a 90% interest in exploratory rights covering approximately 10 million acres offshore Sumatra, *Indonesia*, under the usual production sharing arrangement with the government. An exploratory work program will be commenced this summer. Also, a general reconnaissance seismic survey was conducted during 1970 in the offshore area of Simeulue Island in Indonesia where Pan Ocean has an interest.

Pan Ocean's 10 million acre filing in the *East China Sea* off Okinawa has not yet been acted upon. The area, considered to be highly prospective geologically, is clouded by conflicting territorial claims between the coastal countries.

The government of *Australia* recently awarded Pan Ocean a one million acre permit in New Guinea. The Company is currently participating in two min-



eral exploration programs in Western Australia. As was recently announced, one of the programs has encountered encouraging shows of nickel near Ravensthorpe. However, results are too preliminary to ascertain the commercial value of the deposit. Pan Ocean has a 14% interest in this project.

The license covering 1.3 million acres in *New Zealand* was renewed January 31, 1971 for a five-year period. Pan Ocean holds an indirect 12.5% interest in the area.

A 200 mile seismic program was recently completed offshore from the *Maldiv Islands* in the Indian Ocean at no cost to the Company. Pan Ocean has a 22% interest in the 30 million acre concession.

WESTERN HEMISPHERE

North America

Exploratory holdings in *Canada* now total 15 million gross acres, or four million acres net to the Company's interest. The Company exchanged approximately 10% of its interests in the Arctic for a

7% interest in Magnorth Petroleum Ltd. Magnorth holds over 13 million acres in the Arctic and has now conducted 3,000 miles of reconnaissance seismic.

During 1970, United Bata Resources Limited—a predecessor to the new Pan Ocean subsidiary, United Bata Resources (Canada) Ltd.—participated in the drilling of two successful development wells at Strachan, Alberta and a number of exploratory wells, resulting in one gas discovery. Definitive drilling plans at Strachan will be decided at an operator's meeting to be held in the near future. Bata also carried out an extensive mineral exploration program resulting in the staking of 180 mineral claims in Southeastern British Columbia.

In *Alaska* the Company participated in a joint seismic survey in an area including Block 95 on the North Slope. The survey indicated that this block, in which Pan Ocean holds a 37% interest, is geologically favorably situated. Also an aeromagnetic sur-

vey was conducted over the Company's platinum prospect at Goodnews Bay.

In the lower 48 states, where Pan Ocean has approximately 400,000 gross acres, the Company will have a carried interest in a number of exploratory wells to be drilled during 1971 at no cost to the Company, primarily in Colorado and Wyoming.

South America

Pan Ocean holds a 66% interest in two concessions comprising 600,000 acres offshore *Ecuador*. A seismic survey was conducted here in late 1970 and the Company is hopeful that drilling will get underway to test at least one of the structures within the next twelve months.

Pan Ocean has relinquished its onshore interests in *Colombia*. Offshore, the Company has a 2.5% interest in a million acre concession on which a test well is expected to be drilled during 1971.

Undeveloped Properties

LOCATION	INTEREST	GROSS	NET
Abu Dhabi	31.5%	778,000	245,070
Australia—Western—(Mineral Claim) New Guinea	14.9 100	1,296,000 1,043,200	193,104 1,043,200
Canada	Various	15,328,904	3,932,205
Colombia	2.5	1,000,000	25,000
East China Sea*	70	10,000,000	7,000,000
Ecuador	66.4	606,000	402,384
Ghana	2.095	1,885,440	39,450
Indonesia	Various	10,333,516	9,333,379
Italy—Adriatic Sea**	Various	169,929	122,413
Maldiv Islands (Indian Ocean)	22.5	30,201,173	6,795,264
New Zealand	12.5	1,276,000	159,500
Nigeria**	100	937,484	937,484
North Sea—Dutch Sector	Various	65,000	13,997
Norwegian Sector**	Various	430,305	132,147
U.K. Sector	40	110,250	44,100
Sierra Leone	50	2,560,000	1,280,000
South Africa	40.9	6,890,240	2,817,420
Turkey	30.5	494,200	150,731
United States	Various	744,638	399,344
TOTAL ACREAGE		86,150,279	35,066,192

* Lease application—priority filing.

** A portion of the acreage shown has not been formally awarded and is included in reliance on informal advice of appropriate authority.



Pan Ocean Global Interests

- EXPLORATORY HOLDINGS
- ▲ PENDING APPLICATIONS



Production

On February 8, 1971, the Strachan Gas Plant went into production. Through United Bata Resources (Canada) Ltd., Pan Ocean holds a 20% interest in the \$21 million plant and in the associated gas reserves.

Engineering estimates indicate that total undiscounted future cash flow to Pan Ocean from presently proven reserves at Strachan will be approximately \$86 million over the next 25 years. The plant is currently operating in excess of its designed capacity of 250 million cubic feet per day. Gas sales have been contracted with Trans Canada Pipe Lines Ltd. for a 25-year period. Prices escalate from a current 15.5¢



Gas Processing Plant, Strachan, Alberta.

per mcf to 21¢ per mcf at the end of 25 years, subject to upward redetermination in the tenth year. Condensates have been contracted for sale to Gulf Oil Canada Ltd. for a five-year period. Sulphur markets are presently depressed and no firm sale commitments have been entered into for the plant-produced sulphur, which is presently being stockpiled. The Company's share of the plant's net operating revenue will approximate \$2.25 million in 1971.

In Crockett County, Texas, the Ozona gasoline plant is currently operating at five million cubic feet per day, or at just 20% of its full capacity. Recovery of water injected during fracture treatments, which normally leads to increased gas production rates, has been disappointingly slow. This factor, plus a decision to postpone a scheduled development drilling program in the Ozona field during 1970, has kept the plant at only fractional utilization. An FPC (Federal Power Commission) decision on interstate gas prices is being awaited and should result in significantly higher gas prices for undedicated gas in the area. Consequently further development drilling at Ozona will not commence before a final FPC decision, and in any event not unless better well productivity is established.

Acquisition of United Bata Resources Limited (N.P.L.)

A particularly significant development for Pan Ocean was the recent combination of the assets and operations of the Company with those of United Bata Resources Limited (N.P.L.) of Calgary, Alberta, Canada. The proposal to combine was strongly supported by the management of both companies and was overwhelmingly approved by the shareholders of United Bata in December 1970.

A total of 3,080,487 Pan Ocean shares were issued to the United Bata shareholders, representing one Pan Ocean share for every three United Bata shares and increasing the number of Pan Ocean shares outstanding to approximately 7.6 million. Concurrently, Pan Ocean shares were listed on the Toronto and Vancouver Stock Exchanges (symbol POC).

Management

Pan Ocean's management and staff have been strengthened through the merger with United Bata. Adam A. W. Kryczka, President of United Bata, and William H. Price, Executive Vice President, along with the entire Bata staff, have become an integral part of Pan Ocean's operations. The talents of an

additional experienced geological team have also been added. The Company now has strong competence in Canadian exploration and has the opportunity to expand our efforts in this direction.

In London the overseas operations have been further strengthened technically with the addition of two geophysicists with outstanding backgrounds—Dr. James C. Rees, formerly Chief Geophysicist for the Iranian Oil Consortium and Dr. Hans H. Lohmann who has broad North Sea experience. Operations outside the Western Hemisphere are directed by F. William Popp, Vice President, from the London headquarters.

Three new Canadian directors have been added to the Pan Ocean Board: Adam A. W. Kryczka, President of United Bata and Vice President of Pan Ocean; Phillip J. DeZwirek, former director of United Bata; and Victor E. Trudel, President of Pan Ocean (Canada) Ltd., who was also recently named Executive Vice President of the Company.

Financial Position

In July of 1970 Pan Ocean sold a \$10 million 8% convertible debenture. This debenture, due in 1985, is convertible into common stock at \$12.50 per share. The conversion price was arrived at on the basis of the market value of the Company's stock on the date of the transaction.

Although the Pan Ocean-United Bata merger was consummated in February 1971, the consolidated financial statements reflect the operations of both Pan Ocean and United Bata as though the companies had been one company from inception. For financial purposes, Pan Ocean was deemed to have completed its start-up phase and commenced operations on January 1, 1970. The income statement reflects an operating loss for 1970 of \$4.7 million, of which \$2 million represents the cost of dry holes and the write-off of certain exploratory holdings. The balance sheet reflects a current asset position at year end of \$19 million, all but \$1 million of which is represented by cash and other liquid assets, and a working capital position of \$15.1 million. The total assets of Pan Ocean have grown from \$18.7 million in December 1969 to \$48 million in December 1970.

Consolidated Balance Sheet

	December 31,	
	1970	1969 (Restated Note 1)
ASSETS		
Current assets:		
Cash	\$ 4,168,392	\$ 3,105,522
Time deposits	12,837,810	1,800,000
Marketable securities, at cost (quoted market value \$1,631,000)	1,151,225	—
Accounts receivable	883,287	692,110
Prepaid expenses and other assets	69,477	41,968
Total current assets	<u>19,110,191</u>	<u>5,639,600</u>
Properties and equipment, at cost (Notes 4 and 5):		
Developed oil and gas properties	17,429,077	6,396,085
Furniture and fixtures	292,178	28,784
	<u>17,721,255</u>	<u>6,424,869</u>
<i>Less</i> —Accumulated depletion, depreciation and amortization	<u>(478,944)</u>	<u>(59,662)</u>
	17,242,311	6,365,207
Undeveloped leaseholds, mineral rights and mining claims	10,378,325	5,935,977
	<u>27,620,636</u>	<u>12,301,184</u>
Other assets:		
Investments, at cost	770,005	—
Deferred preoperating expenses	—	556,934
Loan to officer (Note 6)	160,000	160,000
Other	318,815	52,155
	<u>1,248,820</u>	<u>769,089</u>
Total assets	<u>\$47,979,647</u>	<u>\$18,709,873</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,764,561	\$ 1,173,816
Notes and other payables to banks	—	502,220
Income taxes payable (Note 3)	1,174,874	—
Long-term debt due within one year (Note 5)	1,051,200	—
Total current liabilities	<u>3,990,635</u>	<u>1,676,036</u>
Long-term debt (Note 6)	21,413,542	465,100
Shareholders' equity (Notes 1, 5 and 6):		
Common stock \$.01 par value—authorized 30,000,000 shares; issued and outstanding 7,622,603 shares	76,226	66,255
Capital in excess of par value	28,458,002	17,763,607
Deficit	(5,958,758)	(1,261,125)
Total shareholders' equity	<u>22,575,470</u>	<u>16,568,737</u>
Total liabilities and shareholders' equity	<u>\$47,979,647</u>	<u>\$18,709,873</u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Loss and Deficit

	Year ended December 31,	
	1970	1969 (Restated Note 1)
Revenues:		
Sales and other operating revenue	\$1,073,736	\$ 47,722
Interest income	581,439	28,582
Gain on sale of securities	77,567	—
Other income	84,487	—
	<u>1,817,229</u>	<u>76,304</u>
Costs and expenses:		
Production and lease operating expenses	738,192	50,888
Depletion, depreciation and amortization	420,197	57,452
Dry holes and abandonments	1,956,805	642,001
Deferred preoperating expenses	556,934	—
Write-down of investments	19,205	164,850
Interest expense	751,651	15,031
General and administrative expenses	2,071,878	407,207
	<u>6,514,862</u>	<u>1,337,429</u>
Net Loss (per share: 1970—\$.66; 1969—\$.26)	(4,697,633)	(1,261,125)
Deficit, beginning of year	(1,261,125)	—
Deficit, end of year	<u>(\$5,958,758)</u>	<u>(\$1,261,125)</u>

Statement of Common Stock and Capital in Excess of Par Value

	Common stock	Capital in excess of par value
For the period September 4, 1968 to December 31, 1969:		
Exchange of 875,001 shares of common stock for undeveloped leaseholds and mineral rights	\$ 8,750	\$ 1,741,252
Proceeds from various sales of 2,091,115 shares of common stock for cash	20,911	3,529,065
Proceeds from public offering of 400,000 shares of common stock, less \$410,319 expense of issue	4,000	2,785,681
Proceeds from sales of 240,000 shares of common stock under stock option plan and stock purchase agreement (Note 6)	2,400	187,600
Exchange of 206,488 shares of common stock for developed natural gas properties (Note 4)	2,065	5,160,135
Credit resulting from pooling of interests with United Bata Resources Limited (N.P.L.) (Bata) (Note 1)	28,129	4,359,874
Balance at December 31, 1969 (restated—Note 1)	<u>66,255</u>	<u>17,763,607</u>
For the period January 1, 1970 to December 31, 1970:		
Issuance of 479,943 shares of common stock in connection with the acquisition of Vaneil Properties, Inc., Pocantico Oil & Gas Corp. and Ocean Platinum Company (Note 3)	4,799	6,450,436
Exchange of 247,878 shares of common stock for developed natural gas properties (Note 4)	2,479	2,685,321
Credit resulting from gain on purchase and sale of Bata common shares	—	90,803
Proceeds from various sales of 1,691 shares of common stock for cash	17	21,133
Issuance of Bata common shares converted to equivalent number of Pan Ocean common shares (Notes 1 and 6):		
Proceeds from sales of 261,667 shares of common stock relating to exercise of stock options and warrants	2,617	1,288,901
Exchange of 5,923 shares of common stock for oil and gas interests	59	157,801
Balance at December 31, 1970	<u>\$76,226</u>	<u>\$28,458,002</u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Source and Application of Funds

	For the year ended December 31, 1970	For period from inception September 4, 1968 to December 31, 1969 (Note 1)
Source of funds:		
Issuances of common stock by Pan Ocean:		
For developed and undeveloped properties	\$ 2,687,800	\$ 6,912,202
Acquisition of certain subsidiaries	6,455,235	—
Proceeds from sales of common stock	111,953	6,529,657
	9,254,988	13,441,859
Issuances of common stock by United Bata Resources Limited (N.P.L.) ..	1,449,378	4,388,003
Increase in long-term debt	20,948,442	465,100
Total source of funds	31,652,808	18,294,962
Application of funds:		
Operations:		
Net loss	4,697,633	1,261,125
<i>Less</i> —Charges not requiring expenditure of funds:		
Depreciation, depletion and amortization	(420,197)	(57,452)
Dry holes and abandonments	(1,956,805)	(642,001)
Deferred preoperating expenses	(556,934)	—
	1,763,697	561,672
Properties and equipment:		
Developed oil and gas properties	10,918,221	5,952,062
Undeveloped oil and gas properties	6,654,986	7,606,712
Furniture and fixtures	263,394	28,784
	17,836,601	13,587,558
Investments	770,005	—
Other items, net	126,513	182,168
Total application of funds	20,496,816	14,331,398
Increase in working capital	11,155,992	3,963,564
Working capital at beginning of year	3,963,564	—
Working capital at end of year	\$15,119,556	\$ 3,963,564

The accompanying notes are an integral part of these statements.

Pan Ocean Oil Corporation AND SUBSIDIARIES

Notes to Financial Statements

Note 1—Organization and Reporting:

Pan Ocean Oil Corporation (Pan Ocean) was incorporated in the State of Delaware on September 4, 1968. Its activities to December 31, 1969 involved principally the acquisition of developed natural gas properties in Texas and undeveloped leasehold and mineral rights in North America and twelve foreign countries.

On February 5, 1971 Pan Ocean and United Bata Resources Limited (N.P.L.) (Bata) effected a merger in accordance with the terms of a plan of combination initiated on September 23, 1970 whereby the companies combined their operations and assets and each shareholder of Bata received one common share of Pan Ocean in exchange for three common shares of Bata. A total of 3,080,487 shares of Pan Ocean common stock were issued pursuant to the merger agreement. As permitted by Opinion No. 16 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company has elected to account for the business combination under previous pronouncements of the Accounting Principles Board and its predecessor committee. Accordingly, the transaction was treated as a pooling of interests for accounting purposes and the accompanying consolidated financial statements have been adjusted retroactively to include the operations of Bata for the years 1969 and 1970.

For financial reporting purposes, operations were deemed to have commenced on December 20, 1968 for Bata and on January 1, 1970 for Pan Ocean. Therefore, the consolidated statement of loss and deficit for 1969 includes only the operations of Bata. For the year 1970 Bata had revenues of \$57,000 and a net loss of \$2,088,000.

Note 2—Accounting Policies:

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries.

The Company follows the total cost method of accounting for its oil and gas interests. Under this method of accounting, all direct costs of acquisition, exploration and development are initially capitalized. Depreciation, depletion and amortization of the capital cost of producing properties are provided for generally on a unit-of-production basis over the estimated recoverable oil and gas reserves. Costs associated with unsuccessful properties are written off at the time such properties are abandoned or surrendered.

Note 3—Acquisitions:

On February 9, 1970 the Company acquired all the outstanding shares of Vaneil Properties, Inc. for 326,531 shares of common stock. On June 30, 1970 the Company acquired all the outstanding shares of Pocantico Oil and Gas Corp. for 140,000 shares of common stock. On July 2, 1970 the Company acquired all the outstanding shares of Ocean Platinum Company for 13,412 shares of common stock. The assets of these companies consisted principally of oil and gas properties, marketable securities and minority holdings of common stock in certain oil and gas companies.

During the period from February 9, 1970 to April 30, 1970 the marketable securities of Vaneil were sold for cash of \$4,786,000. The net assets of Vaneil at date of acquisition had an estimated fair value of \$4,870,000 after provision for an estimated \$1,465,000 capital gains tax on sale of the marketable securities. The net assets of Pocantico and Ocean Platinum at dates of acquisition had estimated fair values of \$1,376,000 and \$209,235, respectively. The acquisitions were treated as purchase transactions for accounting purposes and hence the assets and liabilities of the companies were recorded at estimated fair values. The statement of loss and deficit includes the operations of such companies from their respective dates of acquisition.

Note 4—Developed Oil and Gas Properties:

Developed oil and gas properties are summarized as follows:

	1970	1969
Producing lands and leases	\$ 8,964,274	\$5,204,720
Lease and well equipment	2,368,973	866,035
Pipelines	1,216,105	145,145
Processing plants and related equipment	4,777,127	159,367
Other	102,598	20,818
	<u>\$17,429,077</u>	<u>\$6,396,085</u>

Developed oil and gas properties include certain natural gas wells and related facilities in Crockett County, Texas, received in exchange for 454,366 shares of common stock. The net assets received were recorded at a total amount of \$7,850,000. Such amount was based on estimates made by an independent appraisal engineer of future cash flow discounted at 8%. Certain shareholders of the Company held significant interests in the Texas properties prior to the above exchange.

Note 5—Long-Term Debt:

Long-term debt at December 31, 1970 includes the following:

Convertible Subordinated Note, due	
July 1, 1985 with interest at 8%	\$10,000,000
Secured bank loan, at ½% over	
Canadian prime rate	6,385,985
Notes payable to banks, interest	
averaging approximately 8%	4,125,200
Other notes payable, due January 1, 1972	
with interest at 5%	1,953,557
	<u>22,464,742</u>
Less—Estimated amounts to be paid within one year	
included in current liabilities	1,051,200
	<u>\$21,413,542</u>

On July 21, 1970 the Company received from Pioneer Lands Corporation \$10,000,000 cash for an 8% Convertible Subordinated Note which is convertible into common stock of the Company at \$12.50 per share. At July 21, 1970 Pioneer Lands and certain of its affiliated companies and individuals owned approximately 50% of the outstanding common stock of Pan Ocean. If the note were fully converted, 800,000 shares would be issued to a present shareholder of the Company who obtained title to the note upon the liquidation of Pioneer Lands Corporation prior to December 31, 1970.

The bank loan of \$6,385,985 is secured by assignments of interests in certain Canadian hydrocarbon reserves. The terms of the loan agreement provide for repayment from production from the assigned reserves. The term of repayment is not to exceed seven years. The Company estimates that approximately \$500,000 of the loan will be repaid during 1971.

Notes payable to banks of \$4,125,000 include \$3,375,200 due currently and \$750,000 due February 28, 1972. The Company is presently negotiating to refinance the \$3,375,200 due currently and accordingly only \$551,200 has been included in current liabilities. Certain of these notes are secured by developed natural gas properties located in Texas.

Note 6—Common Stock and Stock Option Plan:

On August 22, 1969, pursuant to a Stock Purchase Agreement dated as of May 31, 1969 between the Company and an officer, the Company issued 60,000 shares of common stock for \$160,000 in cash. In connection with this transaction, the Company on August 25, 1969 loaned such officer \$160,000 with interest at 7% per annum to be repaid in equal installments on June 1, 1971, 1972 and 1973.

The Company has a qualified stock option plan, ratified by the shareholders on March 5, 1969, to grant options for up to 300,000 shares. Options to acquire 299,500 shares have been granted. On December 11, 1970, shareholders ratified a new plan to grant options to purchase up to 75,000 shares. No options have been granted under this new plan as of December 31, 1970. Both plans provide for the purchase of stock at 100% of its fair market value as of the date the option is granted. Options may not be exercised under either plan unless the grantee remains in the employ of the Company for one year after the date of grant. The options expire up to five years from the date of grant.

Transactions under the Company's qualified stock option plans during the year ended December 31, 1970 are summarized as follows:

Shares under options	Number of shares	Option price
At December 31, 1970	119,500	\$8-\$21
Options which became exercisable during 1970	79,500	\$8
Options exercised	None	None

In 1970 an option was granted to a director of the Company, who is a foreign national, to purchase 10,000 shares at an option price of \$11.50. This grant was not covered by the qualified stock option plans. United Bata Resources Limited (N.P.L.) issued 261,667 equivalent common shares of Pan Ocean in 1970 relating to the exercise of stock options and warrants for cash totalling \$1,291,518.

Note 7—Commitments:

The agreements, leases and permits through which the Company holds direct and indirect interests in undeveloped leaseholds and mineral rights involve various obligations in the form of exploratory work programs and drilling of wells in order to retain the rights to the acreage. At December 31, 1970, the Company had commitments for the years 1971, 1972 and 1973 of approximately \$3,625,000, \$2,100,000 and \$1,685,000, respectively.

The Company has a ten-year lease for office space at a yearly rental cost of approximately \$350,000.

Opinion of Independent Accountants

To the Shareholders and the
Board of Directors of
Pan Ocean Oil Corporation

In our opinion, based on our examination and the report mentioned below of other independent accountants, the accompanying balance sheet, the related statement of loss and deficit, and the statements of common stock and capital in excess of par value and source and application of funds present fairly the financial position of Pan Ocean Oil Corporation and consolidated subsidiary companies at December 31, 1970, the results of their operations and the information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, as restated (Note 1). Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of United Bata Resources Limited (N.P.L.) and its subsidiaries, which statements were examined by other independent accountants whose report thereon has been furnished to us.

Price Waterhouse & Co.

60 Broad Street
New York, New York 10004
March 29, 1971

Board of Directors



(Left) Phillip J. DeZwirek,
Victor E. Trudel, Adam A. W. Kryczka

(Below) Donald B. Lamont, William W.
Peabody, Stanley R. Rawn, Jr.,
Louis Marx, Jr.



(Top) Dan W. Lufkin
(Middle) John M. Emery, Samuel P. Reed
(Bottom) Neil A. McConnell

(Right) Yasuhiro Goh, Peter A. Banker



Pan Ocean Oil Corporation

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New York, New York 10022**

Operations Offices

**Pan Ocean Oil Corporation
515 Majestic Building
Denver, Colorado 80202**

**Pan Ocean Oil Corporation (Texas)
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Midland, Texas 79701**

**Pan Ocean Oil (Canada) Ltd.
United Bata Resources (Canada) Limited
1050 No. 3 Calgary Place
Calgary 1, Alberta, Canada**

**Pan Ocean Oil (U.K.) Ltd.
15 Berkeley Street
London W.1, England**

**Pan Ocean Oil Corporation (Abu Dhabi)
P. O. Box 889
Abu Dhabi**

**Pan Ocean Oil Corporation (Nigeria)
Western House
8/10 Yakubu Gowon Street
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**Oceanica Petroli Italiana, S.p.A.
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00193 Rome, Italy**